

2001**Beneficiary's Share of Income, Deductions,
Credits, etc.****K-1 (541)**

For calendar year 2001 or fiscal year beginning month ____ day ____ year 2001, and ending month ____ day ____ year ____

Complete a separate Schedule K-1 (541) for each beneficiary.

Name of estate or trust _____

Beneficiary's social security number, California corporation number, or FEIN _____

Estate's or trust's federal employer identification number (FEIN) _____

Beneficiary's name, address, and ZIP Code _____

Fiduciary's name, address, and ZIP Code _____

A Beneficiary's percentage of distribution at year end • ____ . ____ %**B** Check here only if this is: • **(1)** ☐ A final Schedule K-1 (541) **(2)** ☐ An amended Schedule K-1 (541)**C** What type of entity is this beneficiary? ... • **(1)** ☐ Individual **(2)** ☐ Estate/Trust **(3)** ☐ Qualified Exempt Organization **(4)** ☐ Other _____**D** Is this beneficiary a nonresident of California? ► ☐ Yes • ☐ No**E** Is the fiduciary a nonresident of California? ► ☐ Yes • ☐ No**Caution:** Refer to the instructions for Schedule K-1 (541) before entering information from this schedule on your California return.

(a) Allocable share item	(b) Amount from federal Schedule K-1 (1041)	(c) California Adjustments	(d) Total amounts using California law (Com- bine col. (b) and col. (c))	(e) California source amounts and credits
1 Interest			•	•
2 Dividends			•	•
3 Net capital gain or (loss)			•	•
4 a Annuities, royalties, and other non-passive income before directly allocable deductions (itemize)			•	•
b Depreciation				
c Depletion				
d Amortization				
5 a Trade or business, rental real estate, and other passive income (itemize)			•	•
b Depreciation				
c Depletion				
d Amortization				
6 Income for alternative minimum tax purposes				
7 Income for regular tax purposes. Add line 1 through line 5				
8 Adjustment for alternative minimum tax purposes. Subtract line 7 from line 6				
9 Adjustments and tax preference items:				
a Accelerated depreciation				
b Depletion				
c Amortization				
d Exclusion items				
10 Deductions in the final year of estate or trust:				
a Excess deductions on termination. (Attach computation)				
b Capital loss carryover				
c Net operating loss (NOL) carryover for regular tax purposes				
d NOL carryover for alternative minimum tax purposes				
11 Other (itemize):				
a Trust payments of estimated tax credited to you				
b Tax-exempt interest				
c Taxes paid to other states. Attach Schedule S, Other State Tax Credit				
d Other credits				
e				

2001 Instructions for Schedule K-1 (541)

Beneficiary's Share of Income, Deductions, Credits, etc.

A Purpose

The estate or trust uses Schedule K-1 (541) to report its beneficiary's share of the income, deductions, credits, etc. The estate or trust files copies of the Schedule K-1s (541) with the Form 541, California Fiduciary Income Tax Return.

Internet Access. You can download, view, and print California tax forms and publications. Go to our Website at: www.ftb.ca.gov

B Who Must File

The fiduciary of the estate or trust (or one of the joint fiduciaries) must file a Schedule K-1 (541) for each beneficiary. A copy of each beneficiary's Schedule K-1 (541) must be attached to Form 541 filed with the Franchise Tax Board (FTB). The fiduciary also must give each beneficiary a copy of his or her respective Schedule K-1 (541) and a copy of the Beneficiary's Instructions Schedule K-1 (541) or other prepared specific instructions. One copy of each Schedule K-1 (541) must be retained for the fiduciary's records.

C Penalty

The estate or trust is charged a \$50 penalty for each failure to provide a required taxpayer identification number, unless reasonable cause is established for not providing it (R&TC Section 19183). If a reasonable cause exists, please explain in a signed affidavit and attach it to Form 541.

D Substitute Forms

If the estate or trust does not use an official FTB Schedule K-1 (541) or a software program with an FTB-approved Schedule K-1 (541), it must get approval from the FTB to use a substitute Schedule K-1 (541). Get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable, and Reproduced Tax Forms, for more information.

E Taxable Year

Beneficiary's taxable year. The beneficiary's income from the estate or trust must be included in the beneficiary's return for the taxable year in which the estate or trust taxable year ends.

Prior Year. Do not include in the beneficiary's income any amounts deducted on Form 541 for an earlier year that were credited or required to be distributed in that earlier year.

F Beneficiary's Income

If no special computations are required, use the following instructions to compute the beneficiary's income from the estate or trust.

California reporting requirements are the same as federal for:

- Income;
- Character of income;

- Allocation of deductions;
- Allocation of credits; and
- Gifts and bequests.

In Schedule K-1 (541), column (b), enter the amounts from federal Schedule K-1 (1041). In column (c), enter the difference between the California and federal totals. In column (d), enter the California total amount (combine column (b) and column (c)). In column (e), enter the California source amount. Prepare and give a Schedule K-1 (541) to each beneficiary of the estate or trust.

Income of nonresidents from bank accounts, stocks, bonds, notes, and other intangible personal property is not income from sources in California unless 1) the property has acquired a business situs in California or 2) orders with brokers have been placed so regularly as to constitute "*doing business*" (R&TC Section 17952). Include in column (e) only income from intangible property that is income from sources within California.

Attach a separate schedule to each beneficiary's Schedule K-1 (541) showing intangible income, such as interest, dividends, capital gains from the sale of stocks, bonds, etc., whose source is dependent upon the residence or commercial domicile of the beneficiary.

For nonresidents, income from a trade or business conducted within and outside California is apportioned or allocated to California in accordance with Title 18, Cal. Code Reg. Section 17951-4(c).

G Passive Activities

The limitations on passive activity losses and credits under Internal Revenue Code (IRC) Section 469 apply to estates and trusts. Estates and trusts that distribute income to beneficiaries are allowed to allocate depreciation, depletion, and amortization deductions to beneficiaries. These deductions are called "*directly allocable deductions*."

If items of income (loss), deduction, or credit from more than one activity are reported on Schedule K-1 (541), the fiduciary must attach a statement to Schedule K-1 (541) for each passive activity.

H Nonresident Beneficiaries

It is necessary to compute the beneficiaries' share of income and deductions, disregarding the nonresident status of any particular beneficiary.

If the beneficiary of an estate or trust is a resident of California on the last day of the estate's or trust's taxable year, the beneficiary's share of income or losses of the estate or trust for that taxable year is taxable to California. Nonresident beneficiaries are taxed only on income that is derived from sources within California. Where an estate or

trust derives income from both within and outside California, it is necessary for the fiduciary to determine what portion of the beneficiary's share of income of the estate or trust is from within and outside California. The amounts derived from or attributable to income from sources within California are to be properly allocated and reported on the Schedule K-1 (541). The fiduciary must clearly show how the allocation was made.

Enter the beneficiary's share of income and deductions from sources within California on Schedule K-1 (541), column (e).

Payments to nonresidents having a business or taxable situs in California are subject to withholding of taxes. For more information, get the Instructions for Form 592, Form 592-A, and Form 592-B.

General Summary of Treatment for Sourcing Specific Nonbusiness Income Items

For California tax purposes:

- Compensation for personal services has a source where the services are performed.
- Interest and dividends generally have a source at the taxpayer's state of residence.
- Gains and losses from the sale or exchange of real and tangible personal property have a source where the property is located.
- Income from intangible personal property generally has a source at the taxpayer's state of residence. Rents and royalties have a source where the property is located.
- Pensions have a source where the services were performed. However, California does not impose a tax on qualified retirement income or pensions received by nonresidents on or after January 1, 1996.

Generally, income from a business, trade, or profession is sourced as follows:

- If the operations are conducted wholly within California, the income has a California source.
- If the operations within California are so separate and distinct from the operations outside of California that taxable income can be separately accounted for, only the income from within California must be included in California source income.
- If the trade or business carried on within California is an integral part of a unitary business carried on outside of California, the entire net income must be reported and apportioned or allocated in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act as contained in Sections 25120 through 25139.

Partnership, limited liability company, and S corporation income (loss), is apportioned or allocated the same as any other business. If the estate or trust is a partner, member, or

shareholder in a business entity, income sourced to California is generally included in column (e) of the Schedules K-1 (565), K-1 (568), or K-1 (100). For more detailed information, review Title 18, Cal. Code Reg. Section 17951.4 and related tax codes.

See Title 18, Cal. Code Reg. Sections 17951-1(c), 17951-2, and 17953 regarding taxability of distributions to nonresident beneficiaries.

If California source income is being distributed to a nonresident beneficiary, see instructions regarding withholding at source in General Information P, Miscellaneous Items, of the Form 541 instructions.

Specific Line Instructions

Please round cents to the nearest whole dollar.

The estate or trust is required to request and provide a proper identifying number for each beneficiary (Revenue and Taxation Code (R&TC) Section 18624). Enter the beneficiary's number on the respective Schedule K-1 (541) when the estate or trust files Form 541, California Fiduciary Income Tax Return.

Individuals and business beneficiaries are responsible for giving the estate or trust their social security number, California corporation number, Secretary of State file number, or federal employer identification number (FEIN) upon request.

The estate or trust may use federal Form W-9, Request for Taxpayer Identification Number and Certification, to request the beneficiary's identifying number.

Columns (b), (c), (d), and (e)

In **column (b)**, the amounts entered are from your federal Schedule K-1 (1041).

In **column (c)**, the amounts entered are the adjustments resulting from differences between California and federal law for each specific line item.

In **column (d)**, the amounts entered are the result of combining column (b) and column (c).

In **column (e)**, the amount entered is used to report California sourced income and credits.

Line 1 and Line 2

Get the instructions for federal Schedule K-1 (1041).

Line 3 – Enter the combined amount from federal Schedule K-1 (1041), line 3 and line 4c.

Note: Gains or losses from the complete or partial disposition of a rental, rental real estate, or trade or business activity that is a passive activity must be shown on an attachment to Schedule K-1 (541).

Line 4 – Enter on line 4a the beneficiary's share of annuities, royalties, or any other income, before directly allocable deductions, that is not subject to any passive activity loss limitation rules at the beneficiary level. Enter on lines b, c, and d the beneficiary's share of the directly allocable deductions for depreciation, depletion, or amortization.

Line 5 – Enter on line 5a the beneficiary's share of trade or business, rental real estate, and other passive income, before directly allocable deductions, that is subject to any passive activity loss limitation rules at the beneficiary's level. Enter on lines b, c, and d the beneficiary's share of the directly allocable deductions for depreciation, depletion, or amortization.

Line 6 – An estate or trust cannot pass through the alternative minimum taxable income (AMTI) exclusion to the beneficiary. The Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries, for the estate or trust must be recalculated leaving line 7b blank. This will eliminate the effect of the AMTI exclusion but allow other items of adjustment or tax preference to be passed through to the beneficiary. The recalculated amount on Schedule P (541), line 10, must be entered on Schedule K-1 (541), line 6.

The estate or trust (except a common trust fund) may not pass through the exclusion for qualified small business stock (R&TC Section 18152.5) to a beneficiary. Therefore, it would also not pass through the adjustment related to this exclusion to the beneficiary. Any adjustment made to the estate's or trust's income (except for a common trust fund) for alternative minimum tax purposes for the qualified small business stock exclusion should be eliminated when completing the beneficiary's Schedule K-1 (541).

Line 9a through Line 9d

Enter the amounts from Schedule P (541). Get the instructions for federal Schedule K-1 (1041) for more information.

Line 10a through Line 10d

If this is the final return, enter on line 10 the beneficiary's share of any:

- Excess deductions on termination (follow the instructions for federal Form 1041);
- Capital loss carryover; or
- Unused net operating loss (NOL) carryover for both regular and alternative minimum tax, if the NOL carryover would be allowed to the estate or trust in a later year but for termination.

Note: No deduction is allowed for estate taxes.

Line 11a through Line 11e

Enter the beneficiary's share of each item not entered elsewhere on Schedule K-1 (541). Attach a separate sheet for each item reported on line 11 showing the computation. Items that must be reported on this line include the allocable share, if any, of items listed on line 11a through line 11d.

Line 11b – Enter tax-exempt interest received by the estate or trust (including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company).

Line 11c – Enter taxes paid to other states reported on Schedule S, Other State Tax Credit.

Note: Attach a copy of the return filed with the other state, evidence of payment, and a copy of Schedule S to verify the amount of tax paid.

Line 11d – Enter on an attached schedule each beneficiary's allocable share of any credit or credit information that is related to a trade or business activity.

Line 11e – Enter any other item that is not included above such as:

- Gross farming and fishing income; or
- Investment income (IRC Section 163(d)).

The estate or trust may need to report supplemental information that is not specifically requested on the Schedule K-1 (541) separately to each beneficiary.

If the estate or trust is claiming tax benefits from an Enterprise Zone (EZ), Los Angeles Revitalization Zone (LARZ), Local Agency Military Base Recovery Area (LAMBRA), Manufacturing Enhancement Area (MEA), or Targeted Tax Area (TTA), it should give the beneficiaries their distributive share of the business income and business capital gain or loss apportioned to the EZ, LARZ, LAMBRA, MEA, or TTA on this line.